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Colombia

Sugar

Annual

2004

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Report Highlights:
Sugar production reached 2.63 million tons in 2002/03 and will rise slightly over the next two years. The growth in production and unusual level of sugar imports (88,000 tons in year 2002/03) resulted in a 20 percent increase in exports to 1.3 million tons. The GOC established a safeguard import quota of 35,000 tons for 2004. The government approved a tax exemption for 14 years for new areas planted. Sugar used for fuel alcohol will likely reduce sugar exports starting in the second half of 2005. Colombia and the U.S. will initiate free trade negotiations on May 18, 2004.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Bogota [CO1]
[CO]

Table of Contents

Executive Summary

Sugar production is projected to grow just 5,000 tons to 2.64 million tons in the 2003/04 marketing year. The area available for expansion in the main sugar region is very limited, so future production levels will depend on increases in efficiency and good weather conditions. The output of non-centrifugal sugar (panela) is projected to be 1,2 million tons, maintaining its previous level.

The Colombian Government established in December 2003 a safeguard quota for imports of sugar from other members of the Andean Community (which normally pay no duties) that will limit imports to 35,000 tons in 2004. Colombian sugar imports had been growing and reached a peak of 105,000 tons in calendar year 2003, up from 12,500 tons in 2000. This increase in sugar imports came after the establishment of the price stabilization fund mechanism in 2001, which increased domestic prices by providing export payments for surplus domestic production (the payment is financed by a levy on domestic sugar sales).

The use of sugar for producing fuel alcohol will become a new demand factor in the second half of 2005, when 35,000 tons of sugar are expected to be used for fuel alcohol production. The expected increase is due to tax breaks and regulatory requirements for ethanol use in fuel that will take effect in the second half of 2005. The traditional sugar region in the Cauca Valley is expected to be the main production area due to its economies of scale. Ethanol production is expected to be more profitable than exporting sugar at the current low world prices.

The growth in production and unusual level of sugar imports (88,000 tons in year 2002/03) resulted in a 20 percent increase in exports to 1.3 million tons. In 2003/04, Colombian sugar exports will remain at the previous year's level as the safeguard quota reduces the level of imports. A drop in exports of 2.3 percent is forecast for 2004/05 as a consequence of using more sugar for ethanol production instead of exporting it.

Production

Colombia's sugar production reached 2.63 million tons in marketing year 2002/2003 as a result of good weather conditions, renovation of plantings and normalization of the harvest period at 13 months. The sugar cane planted area grew to close to what is considered the maximum available for planting in the sugar producing Cauca Valley of 205,000 hectares. No significant increases in sugar production are expected this year or the following year.

The sugar industry owns 30 percent of total land devoted to sugarcane production. The remaining area is planted under 10 years contracts between the industry and landowners. The rent is a percentage of the sugar produced, which provides security for the industry on its land costs. Given the relative income stability for landowners of this arrangement, they usually prefer to rent their land for sugarcane production instead of assuming the risks of planting other crops.

The area harvested for **non-centrifugal sugar (panela)** is calculated at 226,000 hectares, which are processed by 20,000 peasant facilities localized throughout the country. The output of panela is projected to reach 1.26 million tons during 2004, although the disperse nature of the industry makes it very difficult to have exact numbers on panela production (the figures for sugar production are much more reliable).

Consumption

Human consumption in Colombia reached 1.39 million tons in 2002/03, down three percent from 1.43 million tons a year before. The consumption is expected to increase by half percent in the coming two years. While the Colombian population is increasing, high domestic prices have depressed demand.

The food industry is increasing it share of local consumption, in part due to increased exports of sugar containing products. The food industry currently represents 13 percent of total demand, up two percent from a year earlier.

Some surplus sugar is sold to the feed industry at reduced prices. Sales to the feed industry dropped from 20,000 to 5,000 tons in 2002/03 and are expected to remain at that level.

The use of sugar for ethanol production is expected to impact on domestic consumption starting in the second half of 2005, when the use of alcohol for mixing with gas and diesel will be mandatory in the major cities and tax breaks for ethanol will be in effect. We expect 35,000 tons of sugar to be used in fuel alcohol production in year 2005. Over the long run, the new requirements could have a major impact on domestic consumption and exports, since sugar needed for this purpose could reach half of current exports (for total use of 650,000 tons). The use of sugar for ethanol is expected to provide higher and more stable prices than exports at the world market price. While other regions are looking at producing sugar cane for ethanol production, the main sugar region in the Cauca Valley is expected to be the main producer of ethanol due the infrastructure already in place and economies of scale.

Trade

Sugarcane Exports

Colombian exports of sugarcane in 2003 year reached 64,078 tons, 25 percent higher than 2002 when exports were 51,165 tons. All sugarcane exports originate in the growing areas located near the Venezuelan border. Part of Colombia's sugarcane produced in this area is used locally for panela (non-centrifugal sugar) and the balance is exported to a Colombian-owned mill in Venezuela. No other sugar mills exist in the area.

Centrifugal Sugar Exports

Colombian sugar exports continue to grow and in 2002/03 marketing year reached 1.3 million tons, 20 percent higher than the previous year. This amount represented 50 percent of total sugar output. The growth in exports is due in large part to the price stabilization fund, which maintains high domestic prices by providing export payments for surplus domestic production.

Venezuela has traditionally been the top destination for Colombia's sugar exports, however, import restriction by the Venezuelan Government resulted in a sharp drop in exports to that destination in 2003. Much of the drop in Venezuelan imports from Colombia was made up for by increased imports from Cuba, which in turn increased imports from Colombia (Cuba was the top market for Colombia in 2002/03, importing 160,301 tons of sugar). Exports to Venezuela were down to 10 percent (126,000 tons) of Colombian exports from 33 percent of exports the year before. Other key markets were Canada 111,900 tons, Chile 79,800 tons. The United States bought 152,000 tons, a 12.2 percent share, the second largest destination for exports from Colombia in 2002/03 year.

Colombian panela (non-centrifugal sugar) exports are relatively small and erratic in volume from year to year. Colombia exported 5,300 tons of panela in 2002/03, maintaining virtually the same level as a year earlier. The main buyer for Colombia's panela was Venezuela, which took above two-thirds of all panela exports. United States represented the second largest market buying 26 percent of the 2002/03 total exports. Most of this product is sold to U.S. Hispanic consumers.

The U.S. Sugar Quota

Colombia exported 146,968 tons of raw sugar to the United States in 2003. The U.S. Sugar quota for Colombian exports was fixed at 25,273 tons for the October 2003-September 2004 fiscal year, the same as the previous year. This represents only two percent of the total sugar exports, however, the industry considers it important given its profitability.

The quota is assigned to the exporters through the ministry of Foreign Trade, who issues the sugar quota certificates. Traditionally, large sugar mills obtain 80 percent of the quota, and panela producers the remaining 20 percent. Sugar exports, which do not fall within the import quota, are made at world prices.

Sugar Imports

The Colombian government established a safeguard on sugar imports in December 2003, setting a quota of 35,000 tons for imports from Andean countries in 2004. This restriction will become the maximum amount allowed to enter from all countries in 2004, although some smuggling is expected due to the high local price relative to neighboring countries.

Colombia has imported small amounts of sugar since 1991, however, the import levels began to rapidly increase during the last three years: from 13,000 tons in 2000 to 55,000 tons in 2001, 74,000 tons in 2002, and 105,000 tons in 2003. The main source of the sugar imported in 2003 was Bolivia, which supplied 72,000 tons (69%) of sugar imports in calendar year 2003, while Brazil provided 16%, and Ecuador 15%. This increase in imports coincided with the establishment of the Price Stabilization Fund in January 2001, which has maintained domestic prices above world prices (see policy below).

Stocks

Sugar stocks are projected to fall to 46,000 tons in the 2003/2004 marketing year, from 71,000 tons in 2002/2003. This reduction is expected to continue in the 2004/2005 marketing year, when stocks are expected to fall to 36,000 tons. The expected reduction is due to the import quota established in December 2003 by the Ministry of Agriculture. Increased use of sugar for ethanol production is also expected to reduce stock levels. Stock figures come from the national sugar federation, which includes all the major sugar producers.

Policy

Production

The Government of Colombia issued Decree 2908 on October 14, 2003 exempting new sugar cane planted areas from taxes for the next 14 years. Sugarcane production receives credit from the Colombia's official financial institution for the agrarian sector (FINAGRO), which subsidizes the credit by forgiving up to 40 percent of the principal. The credit subsidy depends on the size of the company and if it is a cooperative or private producer. Sugarcane companies, including both large sugar millers and small peasant associations of panela producers, received $12.6 million in credit from FINAGRO in 2003.

Export Policy

CERT Tax Rebates

Since 1992, the export subsidy in the form of tax rebate certificates (CERTS) was reduced from 4 percent to the 2.5 percent currently applied. This subsidy is calculated on the FOB value and it is applied to panela exports as well. Exports to the U.S. under the sugar quota do not receive this subsidy due to the relatively high price in the U.S. market.

Sugar Price Stabilization Fund
The price stabilization fund applies a levy to domestic sales in order to finance export payments for surplus production. The fund was established under Ministry of Agriculture Decree No. 569 of 2000 (March 30) and has been in operation since January 2001.

Price Band
Under the terms of the Andean Community, sugar imports from other Andean Community countries are allowed duty-free entry into the Colombian market. Colombia's government, through the application of the Andean Community's price band, discourages sugar imports from countries outside the Andean Community and more recently has restricted imports from other Andean countries through the application of a quota for imports of 35,000 tons in 2004.

The basic duty rate on imports of raw and refined sugar from non-Andean Community countries is 20 percent. The variable surcharge calculation for sugar is based upon adjusted floor, ceiling, and reference price levels determined by the Andean Board of Directors. Under this system, import duties are levied on calculated reference prices and not on actual invoice prices. The Andean Community revises annual ceiling and floor prices in April. The Andean Community adjusts reference prices every two weeks. If the applicable reference price falls within the floor and ceiling price band, the import duty is calculated using the basic tariff rate applied to the reference price. When the reference price falls below the floor price a variable levy or surcharge based upon the difference between the floor price and the reference price is assessed. Conversely, when the reference price exceeds the ceiling price, a reduction is made to the applied duty based upon the difference between the reference and the ceiling price. For the first half of April 2004, Colombia's total effective duty--basic duty plus surcharge--on imports of raw sugar is equivalent to 42 percent of the reference price or $69 per ton while the total effective duty for refined sugar is 21 percent of the reference price or $61 per ton.

Andean Community and Mercosur
The Andean Community and Mercosur recently reached agreement on a bilateral free trade agreement that will take effect in July 2004. Sugar was largely excluded from this agreement, with Colombia maintaining the price band system and no agreement reached on when tariff reductions would begin.

Bilateral Free Trade U.S. - Colombia
Negotiations for a bilateral free trade agreement between the U.S. and Colombia will start in May 2004. The preliminary goal is to conclude the negotiations by the end of January 2005.

Alcohol to be used as Fuel
In September 2001, the Colombian Government issued Law 693, which makes it mandatory to use alcohol in gasoline sold in cities with populations larger than 500,000 inhabitants. The time-frame for the application of the law is 5 years, with the initial requirements taking effect in September 2005. The 2003 tax reform established an exemption for alcohol used in fuel from payment of the value added tax, the diesel surcharge, the global tax (also applied to diesel) and the "stamp for transportation" (a kind of tax paid for diesel transported by pipeline).

Tables

Colombia: Centrifugal Sugar, PS&D, 2002/03 – 2004/05 (1,000 tons)

Colombia							
Centrifugal Sugar							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		09/2002		09/2003		09/2004	MM/YYYY
Beginning Stocks	59	59	6	71	63	46	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	2565	2630	2680	2635	0	2645	(1000 MT)
TOTAL Sugar Production	2565	2630	2680	2635	0	2645	(1000 MT)
Raw Imports	6	14	7	10	0	15	(1000 MT)
Refined Imp.(Raw Val)	50	74	50	35	0	40	(1000 MT)
TOTAL Imports	56	88	57	45	0	55	(1000 MT)
TOTAL SUPPLY	2680	2777	2743	2751	63	2746	(1000 MT)
Raw Exports	825	663	825	660	0	650	(1000 MT)
Refined Exp.(Raw Val)	439	643	440	640	0	620	(1000 MT)
TOTAL EXPORTS	1264	1306	1265	1300	0	1270	(1000 MT)
Human Dom. Consumption	1390	1395	1395	1400	0	1405	(1000 MT)
Other Disappearance	20	5	20	5	0	35	(1000 MT)
Total Disappearance	1410	1400	1415	1405	0	1440	(1000 MT)
Ending Stocks	6	71	63	46	0	36	(1000 MT)
TOTAL DISTRIBUTION	2680	2777	2743	2751	0	2746	(1000 MT)

Colombia: Sugarcane for Centrifugal Sugar, 2002/03 – 2004/05
(1,000 hectares and 1,000 tons)

Colombia							
Sugar Cane for Centrifugal							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		09/2002		09/2003		09/2004	MM/YYYY
Area Planted	200	205	202	200	0	202	(1000 HA)
Area Harvested	166	166	172	170	0	171	(1000 HA)
Production	19800	19400	20500	21500	0	21550	(1000 MT)
TOTAL SUPPLY	19800	19400	20500	21500	0	21550	(1000 MT)
Utilization for Sugar	19800	19400	20500	21500	0	21515	(1000 MT)
Utilizatn for Alcohol	0	0	0	0	0	35	(1000 MT)
TOTAL UTILIZATION	19800	19400	20500	21500	0	21550	(1000 MT)

Colombia: Exports of Centrifugal Sugar, 2003

Export Trade Matrix			
Country	Colombia		
Commodity	Centrifugal Sugar		
Time Period	Jan-Dec	Units:	(0,000 MT)
Exports for:	2003		**2004**
U.S.	152	U.S.	
Others		Others	
Cuba	160		
Haiti	130		
Venezuela	126		
Canada	112		
Chile	80		
Egypt	63		
Jamaica	55		
Nigeria	34		
Mauritania	28		
Syria	25		
Total for Others	813		0
Others not Listed	280		
Grand Total	1245		0

Sorce: DANE (National Statistics Bureau)

Colombia: Retail Prices for Refined Sugar, 2003 –2004
(Pesos per kilogram)

Prices Table			
Country	Colombia		
Commodity	Centrifugal Sugar		
Prices in	Col Pesos	per uom	Kilogram
Year	2003	2004	% Change
Jan	1646	1687	2%
Feb	1651	1665	1%
Mar	1639	1639	0%
Apr	1638		-100%
May	1626		-100%
Jun	1631		-100%
Jul	1630		-100%
Aug	1625		-100%
Sep	1613		-100%
Oct	1635		-100%
Nov	1636		-100%
Dec	1661		-100%
Exchange Rate	2671	Local Currency/US $	
Date of Quote	4/2/2004	MM/DD/YYYY	

Colombia: Non-centrifugal Sugar Area and Cane Production 2002/03 – 2004/05 (1,000 hectares and 1,000 tons)

Colombia							
Sugar Cane, Non-Centrifugal							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2003		01/2003	MM/YYYY
Area Planted	0	320	0	320	0	320	(1000 HA)
Area Harvested	0	213	0	220	0	225	(1000 HA)
Production	0	10650	0	10750	0	10800	(1000 MT)
TOTAL SUPPLY	0	10650	0	10750	0	10800	(1000 MT)
Utilization for Sugar	0	10650	0	10750	0	10800	(1000 MT)
Utilizatn for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	0	10650	0	10750	0	10800	(1000 MT)